Dedicated Dental Systems, Inc.
(A Subsidiary of InterDent Service Corporation)

Notes to Financial Statements
For the five months ended May 31, 2003
(Dollars
In thousands)

1. Business Description

Organization

Dedicated Dental Systems, Inc. (the "Company"), a wholly owned subsidiary of Interdent Service Corporation ("Parent"), *formerly Gentle Dental Service Corporation*, was formed in 1985 as a licensed health maintenance organization under the California Knox-Keene Health Care Service Plan Act of 1975 (the "Knox-Keene Act"). The Company delivers managed dental care services through its dental practice offices to enrolled individuals, subscriber groups, individuals covered by the State of California Denti-Cal program, and individuals covered under fee for service plans. All of the Company's operations serve the Bakersfield, California region. On July 31, 1998, Parent, a wholly owned subsidiary of InterDent, Inc., acquired all of the outstanding stock of the Company.

2. Summary of Significant Accounting Policies

(a) Business and Regulatory Environment

The Company is licensed by the Department of Managed Health Care (the "DMHC"). The DMHC requires the Company to maintain a minimum tangible net equity balance. At May 31, 2003, the minimum balance required was calculated at approximately $68. In addition, the DMHC requires the Company to maintain a minimum deposit of $50 pursuant to the Knox-Keene Act. The deposit is comprised of a certificate of deposit held by a trustee and is included in the accompanying balance sheets as other restricted assets. Interest earned on the funds accrues to the Company and is not restricted as to use.

(b) Revenue Recognition and Health Care Services

Prepaid dental care premiums from enrolled groups and individuals are reported as revenue in the month in which enrollees are entitled to receive dental care. Premiums received prior to such period are recorded as unearned premium revenue until earned.

Fees for services and other revenues consist primarily of net patient service revenue (net patient revenue). Net patient revenue represents revenue reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, net of contractual adjustments. Such revenues are recognized as services are performed. The Company records its estimated liability for services provided by other parties based on historical information.

© Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash on hand and interest-bearing deposits with original or remaining maturities of three months or less when purchased.

(d) Accounts Receivable

Accounts receivable principally represent receivables from patients and insurance carriers for dental services provided at established billing rates, less allowances and discounts for patients covered by third-party payor contracts. Payments under these programs are primarily based on predetermined rates. In addition, a provision for doubtful accounts is provided based upon expected collections and is included in medical and hospital and practice selling, general and administrative expenses. These contractual allowances, discounts and allowance for doubtful accounts are deducted from accounts receivable in the accompanying balance sheets. The discounts and allowances are determined based upon historical realization rates, the current economic environment and the age of accounts. Change in estimated collection rates are recorded as a change in estimate in the period the change is made.

(e) Supplies Inventory

Supplies consist primarily of disposable dental supplies and instruments stored at the dental practices. Supplies are stated at the lower of cost (first-in, first-out basis) or market (net realizable value).

(f) Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost; replacements and major improvements are capitalized, while repairs and maintenance are charged to expense as incurred. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets, typically ranging from three to 15 years. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life or the term of the lease.

(g) Goodwill

In July 2001, the FASB issued Statements of Financial Accounting No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), effective for the Company in the first quarter of 2002. SFAS 142 requires companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Instead, goodwill and intangible assets deemed to have an indefinite useful life are subject to an annual review for impairment. The Company performed the required impairment tests of goodwill as of January 1, 2002, as the goodwill is determined to have an indefinite life. No impairment was recorded during 2002 as a result of adopting SFAS 142. Also, the Company did not record amortization on its goodwill during 2002 or through May 31, 2003.

(h) Long-Lived Assets

In August 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes SFAS 121", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. The provisions of this Statement were effective on January 1, 2002. The adoption of SFAS 144 did not have a significant impact on the Company's financial position or results of operations and no impairment of long-lived assets was recorded during the five months ended May 31, 2003.

(i) Fair Value of Financial Instruments

The Company's balance sheets include the following financial instruments: cash and cash equivalents, certificates of deposit, receivables and accounts payable. The Company considers the carrying amounts of current assets and liabilities in the financial statements to approximate the fair value for these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization.

(j) Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of premiums receivable. Concentrations of credit risk with respect to receivables are limited due to the large number of individuals and employer groups comprising the Company's customer base.

(k) Income Taxes

The Company does not file separate federal, state and local tax returns as they are filed with the consolidated tax returns of Parent. According to a tax sharing agreement with Parent, no income taxes payable under the consolidated tax returns is allocated to or payable by the Company (see Note 7).

(l) Professional Liability Insurance

The Company maintains claims-made basis professional liability insurance coverage of $5,000 per incident and $5,000 in the aggregate on an annual basis. Claims-made coverage covers only those claims reported during the policy period. The Company expects to renew its existing policies and to be able to continue to obtain coverage in future years.

(m) Claims Payable

Claims payable, included in other current liabilities, include amounts billed and not paid and an estimate of costs incurred for unbilled services provided ("IBNR") by dental care providers at the balance sheet date. At May 31, 2003, the IBNR reserve estimate was $18.

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(3) Equipment and Leasehold Improvements

The following table summarizes the components of equipment and leasehold improvements:

	5/31/03

(Dollars
In thousands)

Equipment	$	1,440
Leasehold improvements		891
		2,331
Less accumulated depreciation and amortization		(1,258)
	$	1,073

(4) Commitment and Contingencies

The Company leases office space and equipment for its corporate and dental practice offices under various noncancelable operating leases. Future minimum lease payments due at May 31, 2003, including those with related parties as outlined in note 6, are summarized as follows:

2003	$	183
2004		211
2005		206
2006		173
2007		105
Thereafter		203
	$	1,081

Rental expense, including equipment month-to-month rentals, totaled $224 for the five months ended May 31, 2003.

(5) Eployee Benefits

The Company participates in the InterDent, Inc. defined contribution plan in accordance with Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees of the Company. Contributions to the plan by the Company are discretionary. There were no Company contributions to the plan during the five months ended May 31, 2003.

(6) Related Party Transactions

To obtain favorable group purchases, Parent on behalf of the Company purchases certain goods and services. These goods and services are transferred to the Company at Parent cost. As payment for these services, the Company periodically transfers cash deposits to

(Dollars
In thousands)

Parent. Parent receivable at May 31, 2003 was $378 for advance payments.

Several professional associations ("PAs") affiliated with Parent provide dental care services to certain Company enrolled groups. The Company paid $141 in capitation payments to the PAs for dental care services provided to enrollees of its insured groups during the five months ended May 31, 2003.

The Company continues to lease the following dental practice offices from Dental Practice Management Company ("DPM"), an entity owned by the Company's prior president:

Clinic	**Location/ California**
Mountain View Family Dentistry	Arvin
Rosedale Dental Practice	Bakersfield
California Dental Center	Bakersfield
San Dimas Orthodontic Center	Bakersfield
Delano Family Dentistry	Delano
Lake Isabella Family Dentistry	Lake Isabella

The leases require aggregate monthly payments of up to $26 and expire at various dates through March 2010. Rental expense, aggregating $129 for the five months ended May 31, 2003, is included in practice occupancy.

Future minimum lease payments under lease agreements with DPM at May 31, 2003 are summarized as follows:

2003	$ 89
2004	90
2005	90
2006	90
2007	90
Thereafter	203
	$ 652

(7) Income Taxes

The Company is included as part of the consolidated returns of InterDent, Inc. During the five months ended May 31, 2003, the Company recorded income tax expense of $520, as if the Company were taxed as a C Corporation and was responsible for its federal and state income taxes on a stand alone rather than a consolidated basis. However, under the Company's tax sharing agreement with Parent, no income taxes payable under any federal, state or local tax return of the consolidated group of which Parent is a member shall be allocated to or payable by the Company. As a result, the Company has recorded a capital contribution from Parent of $520 for the five months ended May 31, 2003.

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